

RatingsDirect®

Summary:

Lynchburg, Virginia; General Obligation

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Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

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Credit Profile		
Lynchburg GO Long Term Rating	AA+/Stable	Affirmed
Lynchburg GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services affirmed its 'AA+' rating on Lynchburg, Va.'s outstanding general obligation (GO) bonds based on our recently released local GO criteria. The outlook is stable.

A pledge of the city's full-faith-credit-and-resources and an agreement to levy ad valorem property taxes without limitation as to rate or amount secure these bonds.

The rating reflects our assessment of the following factors for the city.

- We consider Lynchburg's economy to be adequate, with its projected per capita effective buying income at 71.8% of the U.S. and per capita market value of \$75,957. The city serves as the employment and retail base of the four-county region. Campbell county unemployment was 6.9% in 2012. Located within the city's boundaries are five higher education institutions, with Liberty University being the largest. Total enrollment accounts for 27.5% of Lynchburg's total population and is a contributing factor to its lower wealth levels. The city's tax base has remained relatively constant with assessed value (AV) increasing 1.4% since 2010 to \$5.84 billion in 2013. Management projects AV to increase modestly over the next one to two years as ongoing economic development is added to the tax base.
- In our opinion the city's budgetary flexibility remains very strong with total general fund available reserves averaging 22.4% of expenditures over the past three fiscal years (2011-2013) with no plans to significantly spend them down. Audited fiscal 2013 reserves were \$34.8 million or 22% of expenditures. In addition, when reserves, outside the general fund are included, levels rise to \$47.4 million or 30% of expenditures. These reserve levels are well above the city's formal policy of 10%.
- The city's budgetary performance has been strong overall, in our view, with a surplus of 0.6% for the general fund in fiscal 2013 and a slight increase of 0.1% of total governmental funds. The city has a stable revenue stream with little exposure to volatile revenue streams. Property taxes accounted for 61% of general fund revenues, rising to over 72% when all local taxes, such as sales and use, meals, and business license, are included.
- Supporting the city's finances is liquidity we consider very strong, with total government available cash as a percent of total governmental fund expenditures at 22% and 280% of debt service. We believe the city has exceptional access to external liquidity.
- We view the city's management conditions as very strong with strong financial practices.
- In our opinion, the city's debt and contingent liabilities profile is strong, with total governmental fund debt service at 7.9% of total governmental fund expenditures, and with net direct debt at almost 61% of total governmental fund

revenue and slated to rise. We anticipate that debt issuance within the next two years, which includes a very large school project for a new high school, will bring net direct debt, including the new issuance, to roughly 107% of total governmental fund revenue. Overall net debt at 2% of market value is seen as a credit strength.

The city participates in the Virginia Retirement System and makes the required 100% contributions annually. The combined annual required contribution pension costs and other postemployment benefit pay-as you-go costs for fiscal 2013 totaled 7.4% of expenditures. Furthermore, we do not anticipate that these costs will increase substantially in the near term.

We consider the institutional framework score for all Virginia cities with a population over 3,200 to be very strong. See Institutional Framework score for Virginia.

Outlook

The stable outlook reflects our view of the city's consistent financial performance and stable economy, which is supported by very strong budget flexibility, liquidity and management. We do not expect to revise the rating in the next two years because we believe the city will maintain its very strong financial position, despite sizable capital needs in the near term. However, if reserves and the overall fiscal position were to decline, we would consider revising the rating.

Related Criteria And Research

Related Criteria

• USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Virginia Local Governments

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